indusmin limited

Annual Report 1974

The front cover illustrates one of several conveyors stockpiling aggregates at Indusmin's quarry.

Year in Brief

(Dollars in 000's except amounts per share)

	1974	1973
Net sales	$ 17,863	$ 16,145
Net earnings	1,396	1,836
Net earnings per share	$ 1.20	$ 1.57
Dividends declared per share	$ .75	$ .75
Cash flow per share	$ 3.80	$ 3.23
Total assets	$ 21,206	$ 20,454
Shareholders' equity	15,521	15,001
Equity per share	$ 13.29	$ 12.84
Issued capital—shares	1,167,901	1,167,901
Sales by product—Nepheline Syenite	33.5%	31.4%
% of Total —Aggregates	25.7	30.4
—Silica (Quebec)	23.4	21.8
—Silica (Ontario)	17.4	16.4
Income before taxes	$ 2,229	$ 2,439
Income and mining taxes	963	762
Net income —	1,266	1,676
—as a % of sales	7.1	10.4
Add extraordinary item	130	160
Net earnings	$ 1,396	$ 1,836
Number of Shareholders	2,775	2,811
Number of Employees	393	430

The Annual Meeting of the Shareholders of Indusmin Limited will be held in the British Columbia Room at the Royal York Hotel, 100 Front Street West, Toronto on Friday April 4, 1975 at the hour of 11:00 o'clock in the forenoon.

To Our Shareholders:

The year 1974 established a new record in terms of sales, which reached $17,862,578, for an increase of 10.6% over the year 1973. However, the sharp rise in production costs was not entirely offset by price increases and profit margins decreased. The year's earnings performance was further adversely affected by a rapidly declining market demand in November and December due to the depressed state of the economy in North America.

These were the highlights compared with 1973:

Income before taxes.	$2,229,203	down 8.6%
Net income after taxes.	$1,266,403	down 24.4%
Net earnings, including extraordinary item.	$1,396,403	down 23.9%
*Net earnings per share	$ 1.20	down $ .37 per share

*including extraordinary item.

On pages 4 and 5 of this report there are data and commentaries about each of your Company's operations.

Your Company in 1974 sold in excess of 4,200,000 tons, (4,800,000 in 1973), paid out $5,800,000 in wages and related costs ($5,600,000 in 1973), and consumed $7,400,000 worth of materials, supplies and services, ($6,000,000 in 1973). The revenue earned by commercial carriers for the distribution of your Company's products amounted to $13,200,000 ($12,400,000 in 1973).

It is gratifying to report that after more than five years of delay and uncertainty, formal documentation has been completed providing for the continuation of the St. Canut operation in Quebec. A large area was expropriated by Federal authorities on March 27, 1969 for the new Montreal International Airport, including your Company's entire holdings which consisted of 198 acres of surface rights on which stood the processing plant, and some 1,091 acres in which the Company held mining and mineral rights. Government authorities promptly requested and authorized the Company to continue its occupation and operations. This right has been formally confirmed by a lease, running from the date of expropriation to 1994, with certain renewal privileges. The area has been reduced and modified to accommodate the airport requirements, and the few operating restrictions imposed are not believed to be of major consequence. As our plants and structures were not required for public purposes, and title is retained, we are free to modify or enlarge these plants to suit our operating needs.

As a result of the expropriation, the Company has lost the freehold title to its lands, served by road and rail facilities, and for this $200,000 cash compensation has been received. The compensation received for the loss of mining and mineral rights over a large acreage, and the substantial potential ore reserves contained therein, was $800,000. For costs, expenses, damages and other claims, the amount received was $200,000.

Overall this arrangement is viewed as reasonable, though not particularly generous to the Company. The long delay before settlement was reached, and compensation received, was unsatisfactory, both from the point of view of loss of interest, as well as for the restraint which was imposed on your management in respect of plant improvements, expansion and greater efficiencies. However, the delay experienced never resulted in shutdown, as we have had full rights of occupation as tenant and have continued operations without interruption. It is the expressed intention of Crown authorities that quarrying and processing can continue for a substantial term of years, and our expectation is that a satisfactory rate of production can be maintained.

The Company's central administrative functions, including operations management, sales, accounting, invoicing, traffic and other services, were moved in November to a new location in Toronto on Bloor Street. This move will reduce costs and will meet long term space requirements. The location of the corporate head office was not changed.

The year 1974 had its special problems. The Ontario Silica Operation suffered a significant loss of sales tonnage when a strike tied up the vessels of the Canadian Great Lakes carriers for many weeks. The shortages of rail cars, paper bags, steel and other commodities characteristic of 1973 prevailed throughout 1974.

In these reports we have often reported on your management's objective to diversify the Company product line to reduce the current vulnerability due to seasonal down-turns in sales demand, and the level of our dependence on consumption in relatively few industries. The objective remains intact, however, the investment of capital in new ventures was earlier postponed due to unanticipated start-up and metallurgical problems in the Ontario Silica Operation and the consequent delay in reducing the debt to a level permissive of further major capital outlays. The quest for diversification was resumed in late 1973 and in 1974 the Corporate Planning and Development Department was reorganized and strengthened. This Department has studied, both in Canada and the United States, a number of industrial mineral prospects and operating companies, the latter being viewed as possible acquisitions. A variety of manufacturing opportunities, compatible with our technology and present activities, are under consideration. Here also we regard both new development and acquisition as viable alternatives. The business recession has caused us to move towards diversification with a greater degree of caution, but we are alert to the fact that such conditions may bring unusual opportunities for investment.

The outlook for the first six months of 1975 and perhaps beyond, is not encouraging. The recession has materially reduced the market potential in most of the industries we serve and a recovery before mid-year is improbable. There will not be a satisfactory sales potential for Indusmin until there is an increase in the number of housing starts and other construction projects, and a revival in the auto industry. A substantial proportion of our total costs are fixed over a wide span of production levels, and a large reduction in sales tonnages below those of 1974 would have a significant impact on earnings. The longer term sales prospects for your Company's products are very favorable, and the established growth patterns will be resumed when the North American economy enters the next period of economic expansion.

The special efforts of our employees and suppliers, and the co-operation and understanding of our customers, produced a relatively good performance under difficult circumstances, and to all these people we express our gratitude.

On behalf of the Board of Directors

J. J. Mather
President and Managing Director
February 7, 1975

Summary

Sales

Total billings in 1974 amounted to $23,345,000. Net sales, (total billings less charges for transportation) were $17,862,578 representing an increase of 10.6% over the previous year.

Sales by Quarter (% of Total):	1974	1973
First	19.4	19.4
Second	26.3	27.0
Third	29.8	26.7
Fourth	24.5	26.9

Sales by Industry Application (% of Total):

	1974	1973
Glass containers	28.4	26.7
Paving materials	14.5	18.8
Concrete products	13.2	14.4
Ceramic products	10.7	9.8
Flat and other glass	6.5	4.6
Abrasives	3.6	5.8
Fillers (paint & other)	5.3	5.4
Glass fibres	4.0	5.0
Miscellaneous	13.8	9.5

Sales by Market Area (% of Total):

	1974	1973
Canada	72.6	75.5
United States	24.8	22.6
Other	2.6	1.9

Earnings

	1974	1973
Net income before extraordinary item	$1,266,403	$1,676,146
Net income as a per cent of sales	7.1%	10.4%
Extraordinary item	$ 130,000	$ 159,500
Net earnings — dollars	$1,396,403	$1,835,646*
— per share	$ 1.20	$ 1.57
Return on shareholders' equity	9.0%	12.2%

Net earnings by quarter

	1974	1973
First	$ (60,709)	$ 139,329
Second	516,000	594,052
Third	561,921	563,973
Fourth	379,191	538,292
Total	$1,396,403	$1,835,646*

*includes tax credit of $199,400 (see note #6)

Accounts receivable

Dollars	$3,845,301	$3,694,702
% of Billings	16.5%	17.8%

Cash recovery from operations

Cash recovery — dollars	$4,436,880	$3,776,785
— per share	$ 3.80	$ 3.23

Working Capital

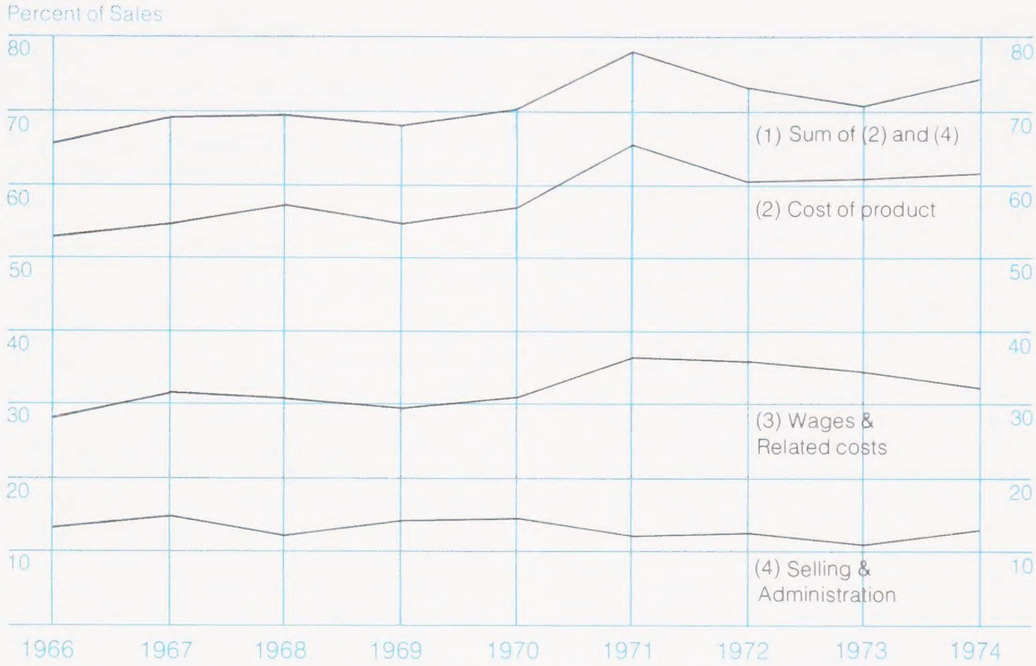
December 31	$2,269,034	$1,636,798

Debt

December 31	$2,780,158	$2,729,491

Taxes

During 1974 legislation was introduced at both the Federal and Provincial levels, that would, if enacted, significantly increase the Company's tax obligations. The 1974 tax calculation gives effect to these proposed amendments. Further details may be found in Note #6 to the financial statements.



Two of the proposed amendments to the Federal legislation are particularly significant.

Provincial mining duties would not be deductible in the calculation of federal income tax. The second major change is the recommendation to introduce in May 1974, the revised formula enacted in earlier legislation for the calculation of depletion allowance. The revised formula was originally scheduled to become effective in January 1977. The revised formula substitutes for the former automatic depletion allowance, 33-1/3% of the income derived from mining, an 'earned' depletion allowance concept. Under this concept, one dollar of allowance is 'earned' for each three dollars of eligible expenditure. The allowance, however, cannot exceed 25% of mining income.

Your Company's existing 'bank' of eligible expenditures will be exhausted by 1978, at which time the depletion allowance will be much reduced with a consequent rise in taxes.

It is also worthwhile to remind the reader that the end of 1973 brought the termination of the long-standing provision for new mines for a three-year period of income tax exemption.

The changes in tax legislation, both Federal and Provincial, enacted in the last three years, plus the changes now recommended, will mean that the corporate tax rate for the mining industry will be one of the highest in Canada.

Capital Expenditures

	1974	1973
Expenditures on land, plant and equipment	$2,800,114	$1,439,320
Ratio — to write-offs	128.6%	69.9%
— to cash recovery	65.0%	38.1%*

*exclusive of expropriation proceeds

Expenditures by category — % of Total		
— for increased capacity	33.0%	39.0%
— for replacements & plant modernization	51.0%	49.0%
— for environmental control	8.0%	11.0%
— other	8.0%	1.0%

The estimated cost of similar programs in 1975 is $2,204,900, distributed as follows: for increased capacity 38%; for replacements and plant modernization 45%; for environmental control 13%; other purposes 4%. Wherever possible expenditures will be delayed until there are firm indications of a strengthening in market demand.

Dividends

There were two dividend payments in 1974 totalling 75 cents (50 cents regular plus 25 cents extra) per share. The dividend disbursements to date total $8,339,787.

Payment per share	Date of record	Date paid
25 cents	June 11	June 28
50 cents	Dec. 17	Dec. 30

Write-offs

The write-offs for depreciation, depletion and development expenses amounted to $2,177,958, equal to 49.0% of the cash flow.

Depreciation, 90.0% of the total write-offs, is calculated on a straight line basis. The assumed life of mobile equipment is six years, and for all other plant and equipment, twelve years.

Industrial Materials Division

Division Manager: R. Lavertu
Sales Manager: W. B. Midgette

Nepheline Syenite Operation

Mine Manager: G.H. Taylor

Sales

	1974	1973
Sales volume		
—dollars	$5,983,582	$5,063,378
—tons	379,580	350,000
% of corporate $ sales	33.5%	31.4%

Sales in 1974, in comparison with the previous year, increased 18.2% in dollar volume and 8.5% in terms of tons sold. For 10 months of the year the sales demand approached production capacity, but in November and December deliveries to the United States declined sharply due to the recession in that country. By late December the demand in Canada had also weakened reflecting worsening economic conditions.

Production

During 1974 much attention was directed to the improvement of productivity in the milling plant, and appreciable gains were realized. The quarrying operation received similar scrutiny, leading to the conclusion that haulage costs could be reduced and better controlled by owning our own trucks. The contractor was notified that the contract would be terminated, and our own fleet will be in operation early in 1975.

A major expansion of the secondary milling circuit was initiated but halted when the decline in sales demand became apparent. The installation can be completed in a few weeks when markets strengthen.

Capital Expenditures

Capital expenditures in the year amounted to $958,000. Capital programs costing an estimated $720,600 have been budgeted for 1975. The expenditures of these monies, however, will be restricted to replacement items and other essentials until there are positive signs of economic recovery. Some 40% of the budgeted expenditures allocated to expansion programs is postponable.

Collective Bargaining Agreement

The agreement expired in October 1974. A new agreement was signed in January of 1975, which will expire in October 1976.

Ore Reserves

Tons	1974	1973
Proven	17,600,000	12,700,000
Probable	4,100,000	8,300,000

Outlook

Sales of nepheline syenite are heavily dependent on the level of housing starts and other building construction. We do not anticipate a substantial recovery in these segments of the economy during the first half of the year. It is too soon to make any prediction at all with respect to the second half.

Ontario Silica Operation

Mine Manager: W.W. Westaway

Sales

	1974	1973
Sales volume		
—dollars	$3,114,132	$2,653,937
—tons	375,462	363,000
% of corporate $ sales	17.4%	16.4%

In comparison with 1973, sales in 1974 were 17.3% higher in dollar volume and 3.4% higher in terms of tons sold. Sales of semi-processed material were severely lessened by the strike which tied up the vessels of the Canadian carriers on the Great Lakes. We could not fulfill, in a substantial way, our orders for semi-processed material. In fact, we barely managed to get sufficient ore from Badgeley Island, the quarry site, to sustain the Midland process plant until the opening of navigation in 1975.

Production

Since start-up, sales of melting sands for the glass industry have been limited by our capacity to market the volume of very fine material accruing in the production of sands. The fine material must be removed to meet glass industry specifications. In late January 1975, a major modification of the crushing circuit will be completed which will reduce somewhat the percentage of fines produced, but it is not a total solution for the problem. Our efforts to develop new uses for the fine materials have been partially successful and the potential has not been exhausted. This operation in 1974 generated a cash flow of $842,000, an increase of $71,000 over 1973.

A customer is seeking compensation in the amount of $326,000 for damages incurred allegedly resulting from the receipt of off-specification product from this operation. This claim was turned over in September to our insurers for investigation. The amount of the liability, if any, to be borne by Indusmin is not yet determined.

Capital Expenditures

Expenditures in 1974 of a capital nature amounted to $594,000. The 1975 budget makes provision for expenditures of $410,000. Expenditures of a capital nature in the Ontario Silica Operation, and in fact in all operations, will only be authorized if essential. All other authorizations will be withheld until a strengthening in market demand is in evidence.

Collective Bargaining Agreement

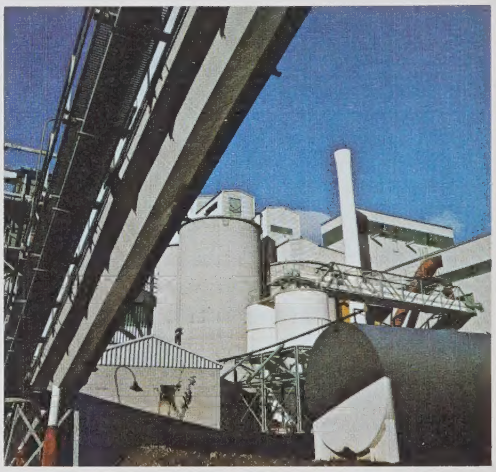
There are two agreements, one covering the employees at Badgeley Island (the mine site) and another the employees at Midland. The Badgeley agreement expires in April of 1975, the Midland agreement in April of 1976.

Ore Reserves

Tons	1974	1973
Proven	14,500,000	15,000,000

Outlook

This operation is less vulnerable than the others to depressed economic conditions because the share of market held is relatively low. We anticipate that sales tonnages in 1975 will exceed those of 1974 which, for reasons already stated, were extraordinarily low.



A view of Indusmin's Silica processing plant at Midland.

The drilling operation at Indusmin's Quebec Silica division at St. Canut, P.Q.

Construction Materials Division

Division Manager: A. G. Borud
Sales Manager: A. H. Morrison

Quebec Silica Operation

Mine Manager: G.E. Rodger

Sales

	1974	1973
Sales volume		
—dollars	$4,185,309	$3,524,578
—tons	433,704	406,000
% of corporate $ sales	23.4%	21.8%

Sales in 1974 in dollar volume and tons were up in comparison with 1973 by 18.7% and 6.8% respectively. Since the market for this operation is diverse, and exceeds our current production capacity, the availability of new business served to temper the impact of the decline in demand from individual accounts. Sales were still holding up well at year end.

Production

The settlement of the expropriation issue restored a much needed confidence in continuity. We are now able to proceed with overdue plant modifications and improvements. Profitability in 1974 declined in comparison with 1973 due to the impact of inflation on operating costs and a decline in productivity. We are looking for early improvement in productivity both in the mine and process plant, due to the capital improvements contemplated in 1975, and other programs now underway.

The expropriation settlement altered significantly the area of land to which we have access. This will necessitate revision of our long-range mining plans, but we do not anticipate any insurmountable problems. The presence of the airport as a next-door-neighbor will bring formidable competition for skilled labor and exert other influences. These will be resolvable problems, but there will be an unfavorable impact on operating costs.

Capital Expenditures

Expenditures in the amount of $338,000 have been budgeted for 1975. Most of these programs will be initiated at once because of their influence on productivity and anticipated operating cost reduction. Capital expenditures in 1974 were $345,000.

Collective Bargaining Agreement

The St. Donat agreement expires in July 1976, and the St. Canut agreement in January 1976.

Ore Reserves

Tons	1974	1973
Proven	5,600,000	7,100,000
Probable	11,600,000	12,100,000

Outlook

The demand in 1974 exceeded the production capacity at St. Canut. The recession will lower overall demand, but with an increase in our share of the market, a reasonable expectation, sales in 1975 will compare favorably with those of 1974.

Aggregates Operation

Mine Manager, Acton: D. L. Murdy
Mine Manager, Halton: G. R. Lee

Sales

	1974	1973
Sales volume		
—dollars	$4,579,555	$4,903,323
—tons	3,050,625	3,700,000
% of corporate $ sales	25.7%	30.4%

Sales in 1974 in comparison with 1973, declined 6.6% in dollars and 17.6% in tons sold. The year 1973 was one of extraordinary opportunity due to the temporary withdrawal from the market of two competing operations. Market conditions throughout all of 1974 were quite favorable. The demand declined in November and December, but this was a typical seasonal characteristic due to the reduction in construction activity during the winter months. A truckers' strike early in the year halted deliveries for an extended period, but some of the business was recovered before year end. The Halton operation was particularly affected by the strike because, unlike Acton, it is not served by rail.

Production

The Halton property and plant was leased in 1970 from Halton Crushed Stone Limited. The first term of the lease expires in 1979, but is renewable thereafter in five-year increments, at Indusmin's option, until February 2008. The need emerged in 1974 to initiate a program for the replacement of trucks and front-end loaders. These replacements are to Indusmin's account and remain the property of Indusmin.

The highlight of the year at Acton was the achievement of a substantial improvement in productivity. The rise in operating costs due to inflation was well contained and adequately offset by the 1974 price schedules. Permission was obtained to close a county road which intersected the orebody. The Company was required to construct an alternative roadway at its own expense. The new roadway, except for surfacing, was completed before year end.

The Niagara Escarpment Commission is due to present in January of 1976, its recommendations for the formulation of a development policy for the escarpment. While we have no reason to anticipate anything so drastic as cessation of operations, it is reasonable to expect demanding regulations as to site rehabilitation. We have foreseen such demand, however, and our rehabilitation programs are well advanced.

Capital Expenditures

Of the $716,000 expended, principally for the replacement of mobile equipment, $362,000 was spent at Acton and the remainder, $354,000 at Halton.

The total authorization for 1975 is $709,000, of which $502,000 is allocated to Acton and $207,000 to Halton. The Acton appropriation includes an amount of $281,000 for the installation of a new circuit for the production of a new product which appears to have a favorable market potential.

Collective Bargaining Agreement

The new Acton agreement, negotiated late in the year, expires October 31, 1976. The Halton employees are not unionized.

Ore Reserves

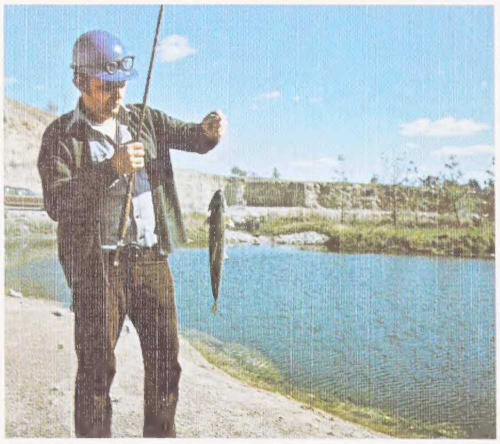
	1974	1973
Acton	67,300,000	70,000,000
Halton	14,200,000	15,000,000

The normal annual extraction rates for Acton and Halton are 2,000,000 tons and 800,000 tons respectively.

Outlook

The sales potential in the first half of the year characteristically is low. To illustrate, sales in the first half of each of the years 1974 and 1973, as a percentage of total sales for the year, were but 33% and 31% respectively. The ratio in the first half of 1975 will be even lower. We are predicting, however, that the second half will bring a fairly active market and that total sales in the year 1975 will be about the same as in 1974.

Denise Bolton operates a 35-ton truck at the Acton quarry.



A trout pond was established at Halton as part of the site rehabilitation program.

indusmin limited

(incorporated under the laws of Canada)

Consolidated Statement of Financial Position

December 31, 1974

	1974	1973
Current Assets		
Cash	$ 34,874	$ 25,387
Accounts receivable for product and freight	3,845,301	3,694,702
Amount receivable with respect to expropriation proceedings (note 4)		1,000,000
Inventories (note 2)	2,906,494	1,814,881
Prepaid expenses and other current assets	159,375	241,034
	6,946,044	6,776,004
less		
Current Liabilities		
Bank advances	2,780,158	2,729,491
Accounts payable and accrued charges	1,764,810	1,502,539
Estimated income and mining taxes payable	(21,558)	653,576
Principal payments due within one year on mortgage loans and notes	153,600	253,600
	4,677,010	5,139,206
Working Capital	2,269,034	1,636,798
Mining properties, plant and equipment, net (notes 3 and 4)	12,121,445	11,330,970
Other mining properties and expenditures thereon	666,800	666,800
Unamortized deferred development expenditures	596,753	779,291
Investment in unconsolidated subsidiary (note 1)	321,053	321,053
Investment in associated and other companies (note 5)	438,878	447,313
Loans receivable, secured	115,565	132,126
Total assets less current liabilities	16,529,528	15,314,351
Mortgage loans and notes less amounts due within one year	95,966	249,566
Deferred income and mining taxes (note 6)	912,300	64,000
	1,008,266	313,566
Shareholders' Equity	$15,521,262	$15,000,785
Ownership evidenced by:		
Capital stock		
Authorized — 2,000,000 shares with no par value		
Issued and fully paid — 1,167,901 shares	$10,854,014	$10,854,014
Retained earnings	4,667,248	4,146,771
	$15,521,262	$15,000,785

Approved on behalf of the Board:

J. J. Mather, Director

W. E. Curry, Director

Auditors' report to the shareholders

We have examined the consolidated statement of financial position of Indusmin Limited and its wholly-owned subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Indusmin Limited and its consolidated subsidiaries as at December 31, 1974 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McColl, Turner & Co.

Peterborough, Canada
January 28, 1975

Consolidated Statement of Earnings

year ended December 31, 1974

	1974	1973
Sales	$17,862,578	$16,145,216
Cost of products sold	10,990,246	9,802,217
Selling, general and administrative expenses	2,235,643	1,767,550
	13,225,889	11,569,767
Operating profit before providing for depletion, development expenditures and depreciation.	4,636,689	4,575,449
Depletion	36,357	36,618
Development expenditures written off	182,537	174,449
Depreciation	1,959,064	1,849,372
	2,177,958	2,060,439
Operating profit	2,458,731	2,515,010
Interest expense	314,025	274,303
	2,144,706	2,240,707
Gain on sale of surplus land		131,031
Income from investments	84,497*	66,839*
	2,229,203	2,438,577
Income and mining taxes (note 6)		
Currently payable	114,500	722,231
Deferred	848,300	40,200
	962,800	762,431
Net income before extraordinary item	1,266,403	1,676,146
Extraordinary item (note 4)	130,000	159,500
Net earnings for the year	$ 1,396,403	$ 1,835,646

*Including in 1974 dividends of $75,647 received from associated companies ($59,284 in 1973)

Earnings per share:	1974	1973
Before extraordinary item	$1.08	$1.44
After extraordinary item	$1.20	$1.57

Consolidated Statement of Retained Earnings

year ended December 31, 1974

	1974	1973
Retained earnings, beginning of year		
As previously reported	$ 2,763,674	$ 2,003,354
Net proceeds arising from expropriation of property in 1969 (note 4)	969,597	969,597
Adjustment of prior year income taxes (note 6)	413,500	214,100
As restated	4,146,771	3,187,051
Net earnings for the year	1,396,403	1,835,646
	5,543,174	5,022,697
Dividends paid	875,926	875,926
Retained earnings, end of year	$ 4,667,248	$ 4,146,771

indusmin limited

Consolidated Statement of Changes in Financial Position

year ended December 31, 1974

	1974	1973
Source of funds		
Net earnings for the year	$ 1,396,403	$ 1,835,646
Charges against operations which did not require a cash outlay during the year:		
Depreciation, depletion and amortization of deferred development expenditures	2,177,958	2,060,439
Disposal of fixed assets	14,219	
Income and mining taxes deferred (note 6)	848,300	40,200
Extraordinary item		(159,500)
	4,436,880	3,776,785
Notes payable with respect to equipment purchases, less payments thereon in 1973		366,366
Proceeds arising from expropriation (note 4)		1,000,000
	4,436,880	5,143,151
Application of funds		
Expenditures on land, plant, equipment and mine development	2,800,114	1,439,320
Expenditures on sundry other assets	(24,996)	93,827
Provision for payments on notes and mortgage loans	153,600	253,600
Dividends paid to shareholders	875,926	875,926
	3,804,644	2,662,673
INCREASE IN WORKING CAPITAL	632,236	2,480,478
WORKING CAPITAL (DEFICIENCY), beginning of year	1,636,798	(843,680)
WORKING CAPITAL, end of year	$ 2,269,034	$ 1,636,798

Note:

The figures for 1973 have been restated where necessary to reflect the transactions to which reference is made in Notes 4 and 6.

Notes to Consolidated Financial Statements

December 31, 1974

1. Accounting policies

(a) Consolidation policy

(i) The consolidated financial statements for 1974 reflect the financial position and the results of the operations of Indusmin Limited and the wholly-owned subsidiary companies, American Nepheline Corporation and Industrial Minerals Canada Limited (currently, a non-operating company).

(ii) The financial statements of the majority-owned foreign subsidiary company, Klukwan Iron Ore Corporation, have not been consolidated with those of Indusmin Limited. As a matter of corporate policy, the investment in the shares of this company is carried at cost. Indusmin Limited owns 95.6% of the issued Class A shares representing a voting interest of 93.6% and a 70% interest in the earnings of Klukwan Iron Ore Corporation. This company owns a large low-grade iron ore deposit in Alaska which is under lease until the year 2036 to United States Steel Corporation or assignee for a minimum annual royalty, currently, of $100,000. The lessee has the right to (a) purchase the deposit for $10,000,000 less all royalties paid to date—which at December 31, 1974 totalled $787,695, (b) terminate the lease on ninety days' notice. The relevant financial data, expressed in U.S. dollars, is set out below:

	1974		1973	
	Total	Indusmin's share*	Total	Indusmin's share*
Net book value	$401,550	$281,085	$389,171	$272,470
Working capital	226,256	158,379	213,877	149,714
Net income	74,745	52,322	69,081	48,357
Dividends paid	62,366	42,600	59,366	42,600

*based on the 70% interest in earnings

Indusmin Limited has taken into income in 1974 $36,210 being a dividend of U.S. $42,600, less U.S. non-resident tax thereon. The comparable net dividend income in 1973 was $36,210.

(b) Translation of foreign currencies

Assets and liabilities in currencies other than Canadian dollars have been translated into Canadian dollars at current rates of exchange at December 31, 1974 except that fixed assets and accumulated depreciation have been translated at the rates prevailing at dates of acquisition. Revenues and expenses in currencies other than Canadian dollars have been translated at the average monthly quoted rates of exchange except that provisions for depreciation have been translated at the rates prevailing when the expenditures on the related fixed assets were made.

(c) Depletion, depreciation and amortization

The company policy is to provide depletion of aggregate deposits on the basis of ore withdrawn and, commencing in 1971, to amortize the cost of other industrial mineral deposits in equal annual amounts over 25 years.

Depreciation of plant and equipment is calculated on the straight line basis assuming a useful life of six years for mobile equipment and twelve years for all other plant and equipment.

Repairs and maintenance are charged to operations or development; betterments and replacements are capitalized. Upon sale or retirement, the cost of the assets and the related allowances for depreciation are removed from the accounts and any gains or losses thereon are taken into earnings.

(d) Development and pre-production expenditures

Expenditures on development of ore bodies prior to the commencement of production are deferred in the company's accounts. The amounts so deferred with respect to aggregate deposits are being written off over twelve years on the straight line basis—in the case of the other ore bodies, these expenditures are being amortized on the basis of ore withdrawn as a percentage of estimated ore reserves in the particular deposits.

2. **Inventories**

	1974	1973
Inventories of crude ore and finished products—valued at the lower of cost or net realizable value	$ 1,531,961	$ 971,021
Inventory of mine and mill supplies—at cost	1,374,533	843,860
	$ 2,906,494	$ 1,814,881

3. **Mining properties, plant and equipment**

	1974	1973
Buildings, plant and equipment, at cost less	$28,794,700	$26,098,568
Accumulated depreciation	17,531,953	15,668,602
	11,262,747	10,429,966
Mining properties and land, at cost less depletion	858,698	901,004*
	$12,121,445	$11,330,970

*Restated to eliminate the remaining book value of land expropriated at St. Canut (note 4)

4. **Expropriations**

(a) As previously reported, the Federal Government on March 27, 1969 expropriated a large area in and about St. Canut, Quebec for the purposes of the new Montreal International Airport—including some 1,125 acres covering all the lands, properties and mineral interests of Indusmin Limited at St. Canut and the substantial silica processing plant standing thereon. The company was permitted to continue operations and, pending conclusion of settlement, no adjustments were made in the company's financial records.

Late in 1974 settlement of the company's claims was concluded, Indusmin Limited being authorized to continue mining and processing operations on a modified area of some 604 acres—as evidenced by a lease for a term dating from the expropriation date in 1969 and ending in 1994 with certain renewal privileges. The company's plants and structures were released from expropriation and the company received $1,000,000 in compensation—for the mineral rights $800,000 and, for the surface rights on 198.7 acres, $200,000. Additionally, the settlement included $200,000 with respect to all claims for costs, expenses and damages. These transactions have now been recorded in the accounts as follows:

(i) $969,597—representing the $1,000,000 referred to above, less the remaining book value of the land—has been added to Retained Earnings to reflect the net compensation arising out of this 1969 transaction.

(ii) $130,000—representing the $200,000 received with respect to claims for costs, expenses and damages, less $70,000 in income taxes attributable thereto—has been recorded as an Extraordinary Item on the Consolidated Statement of Earnings for the year ended December 31, 1974.

(b) On December 17, 1974 the Government of Quebec expropriated a portion of the property owned by Indusmin Limited in the Parishes of St. Benoit, Ste. Scholastique and St. Augustin for highway construction purposes. Hydro-Quebec, on July 5, 1974, expropriated a strip of land on property in the Parish of Ste. Scholastique for the purpose of constructing a transmission line thereon. These expropriated properties include part of a presently undeveloped orebody which is unrelated to the company's current operations. Settlements with respect to these two expropriations, not having been reached to the present time, are not reflected in the company's accounts for 1974.

5. **Investment in associated and other companies**

The company's investments are detailed as follows:

	Number of shares	Indicated market value	Cost
Falconbridge Nickel Mines Limited	16,759	$408,500	$433,196
Quebec Cobalt and Exploration Limited	43,200	32,400	4,968
Other		–	714
		$440,900	$438,878

The market values shown above are based upon closing market prices on December 31, 1974 and, due to the number of shares involved, are not necessarily indicative of the amount that could be realized on sale.

6. **Income and mining taxes**

The company, in accounting for corporate income and mining taxes, uses the deferral method of tax allocation to determine the total taxes applicable to the net earnings of the year. The taxes currently payable in any particular year may vary from the taxes applicable to the earnings of that year by reason of timing differences which arise when expenses recorded in the accounts differ from related amounts claimed in calculating taxable income. As a result of timing differences in 1974, the payment of taxes totalling $848,300 has been deferred to future years.

In 1974 the company received formal acknowledgement that mining activities carried on in 1972 and 1973 on certain properties in Quebec constituted, for tax purposes, the operation of a new mine and that, accordingly, the income therefrom represented income exempt from income taxes. As a result, the liability for deferred income taxes has been reduced by $214,100 with respect to 1972 and by $199,400 with respect to 1973. This change has been achieved by a restatement of the balance of Retained Earnings at January 1, 1973 and January 1, 1974 as set out on the Consolidated Statement of Retained Earnings. The adjustment of $199,400 related to 1973 has also been reflected in the restatement of the provision for deferred income and mining taxes for that year on the Consolidated Statement of Earnings. The cumulative effect for 1972 and 1973—$413,500—has required a restatement of the liability for deferred income and mining taxes at December 31, 1973 on the Consolidated Statement of Financial Position to reduce the liability from $477,500 to $64,000.

On December 20, 1974 the Canadian government introduced legislation to amend the Income Tax Act. The legislation would, among other measures, deny the deduction of provincial mining taxes and impose limitations on the deduction of certain development expenses and on depletion allowances, all with respect to the period after May 6, 1974. The legislation would also make some reduction in the rate of income tax applicable to production profits. On December 19, 1974 the Quebec government announced major increases in the rate of mining duties with respect to the period after March 31, 1974. Although these Federal and Quebec legislative amendments have not been enacted and indeed some of the proposals have not yet been set out in sufficient detail to remove doubt as to their ultimate effect, the 1974 income tax provision has been computed on the basis of taking them into account on the best information available.

7. **Lease obligations**

The company in 1970 leased certain mineral property and equipment from Halton Crushed Stone Limited for a ten year period subject to options to renew in further five year periods until the year 2008. The property is held under an agreement which provides for an annual rental of $90,000, a participation in profits and a royalty on products sold.

As indicated in note 4, the company has leased property at St. Canut until November 13, 1994, subject to certain renewal privileges, at an annual rental of $20,000.

8. **Retirement plans**

The company, in association with Falconbridge Nickel Mines Limited and certain affiliated companies, maintains retirement plans providing retirement, death and termination benefits for all salaried employees. The plans have been amended from time to time and, based upon the most recent actuarial evaluation, such amendments have resulted in unfunded past service obligations having a present value of $212,075 at January 1, 1975 which have not been provided for in the company's accounts and for which the company has no legal obligation. However, the company intends to fund these obligations through annual payments over the next fourteen years.

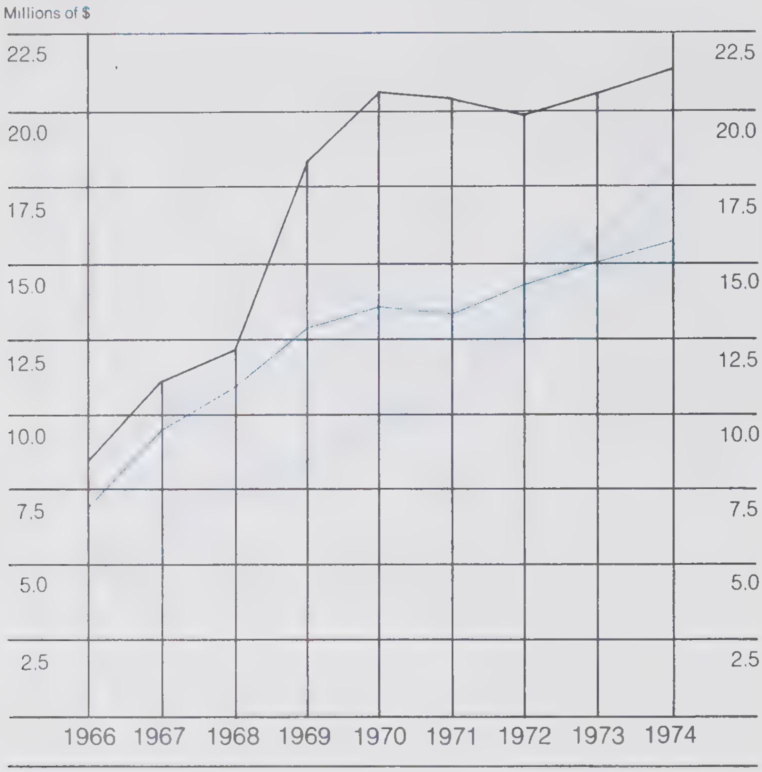
9. **Directors and senior officers**

The board of directors of the parent company, Indusmin Limited, consists of seven directors whose remuneration as directors totalled $22,500 in 1974. There are ten officers and senior managers, one of whom is also a director of the company. The remuneration of the officers and senior managers aggregated $313,154 in 1974. No remuneration of directors, officers or senior managers of the parent company has been included in the accounts of the subsidiary companies.

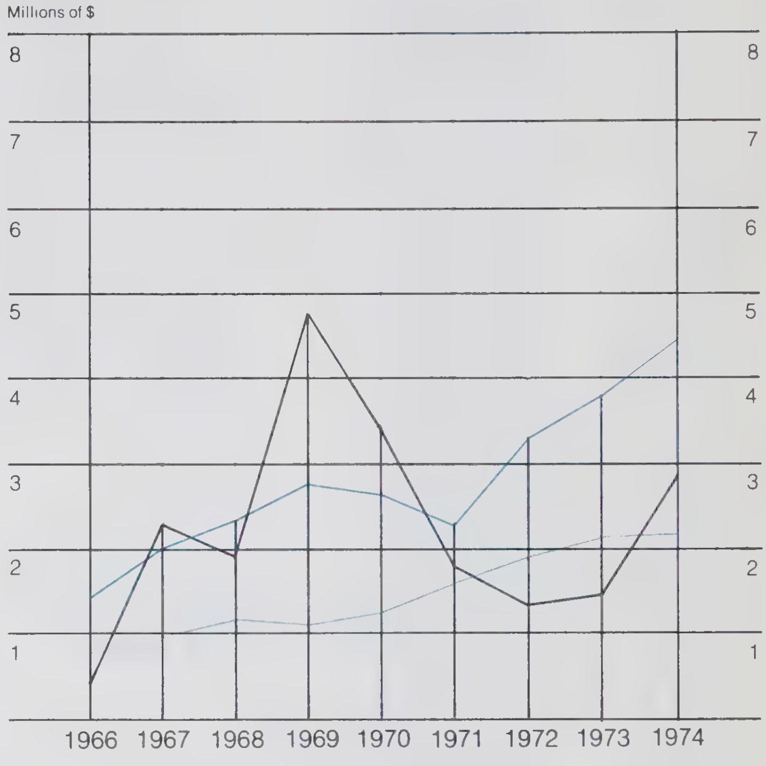
10. **Contingent liabilities**

In September 1974 the company was advised by a customer of a claim approximating $326,000 with respect to product shipped to that customer. This claim is still under review by company officials.

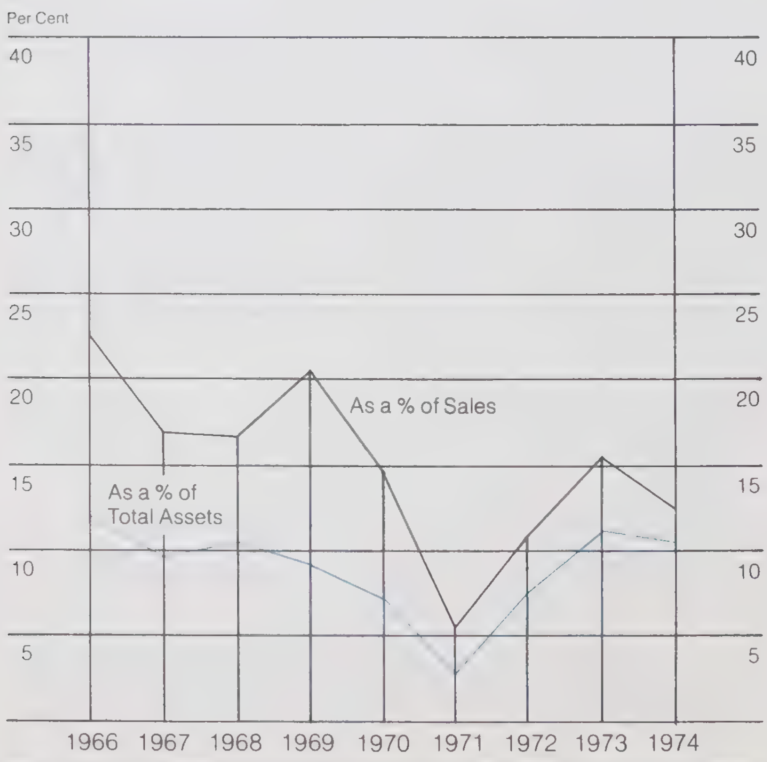
Total Assets, Shareholders' Equity, Sales



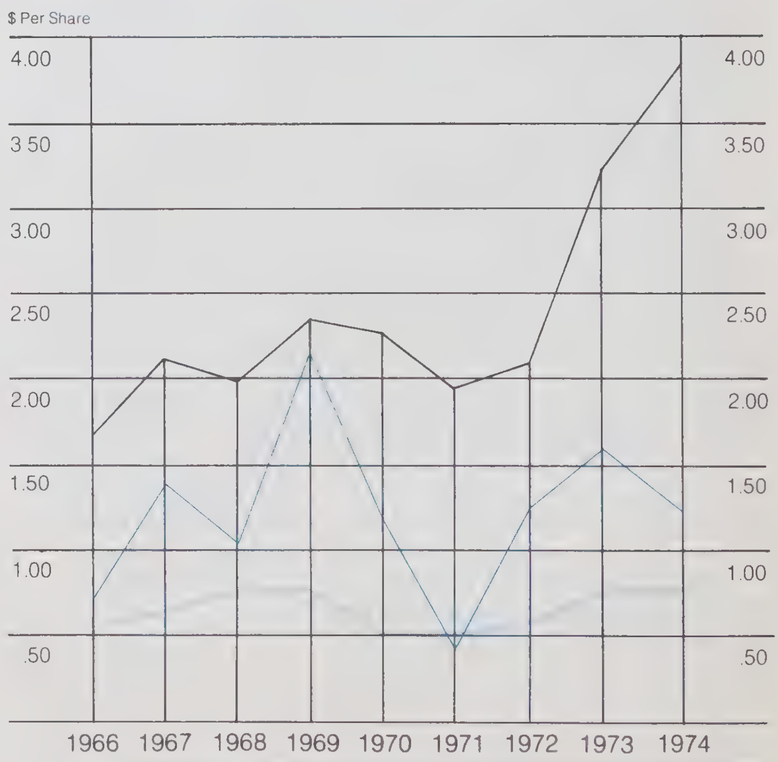
Cash Flow, Depreciation, Capital Expenditures



Income before Taxes



Cash Flow, Dividends, Net Earnings



Statistical Summary

(Dollars in 000's except amounts per share)

	1974	1973	1972	1971	1970	1969	1968	1967	1966
Operating results									
Sales	$ 17,863	$ 16,145	$ 13,221	$ 10,947	$ 9,736	$ 8,220	$ 7,379	$ 6,532	$ 4,448
Operating profit –	2,459	2,515	1,674	855	1,724	1,555	1,190	1,045	949
– % of sales	*13.8*	*15.6*	*12.7*	*7.8*	*17.7*	*18.9*	*16.1*	*16.0*	*21.3*
Interest expense	314	274	298	375	366	112	–	–	–
Other income	84	198	76	77	91	224	34	56	49
Income before taxes	2,229	2,439	1,452	557	1,449	1,667	1,224	1,101	998
Income and mining taxes	963	762	432	139	627	695	537	298	389
Net income –	1,266	1,676	1,020	418	822	972	687	803	609
– % of sales	*7.1*	*10.4*	*7.7*	*3.8*	*8.4*	*11.8*	*9.3*	*12.3*	*13.7*
– per share	$ 1.08	$ 1.44	$ .87	$ .36	$ .70	$ .83	$ .59	$ .83	$ .71
Add extraordinary item	130	160	442	41	483	1,537	526	526	–
Net earnings –	1,396	1,836	1,462	459	1,305	2,509	1,213	1,329	609
– per share	$ 1.20	$ 1.57	$ 1.25	$ .39	$ 1.12	$ 2.15	$ 1.04	$ 1.38	$ .71
Capital & mine development expenditures	2,800	1,439	1,335	1,798	3,450	4,862	1,971	2,284	358
Depreciation, amortization & depletion	2,178	2,060	1,911	1,588	1,142	1,064	1,100	984	724
Cash flow from operations	4,437	3,777	3,266	2,262	2,668	2,707	2,318	2,018	1,412
Financial position									
Working capital (deficit)	2,269	1,637	(844)	(2,132)	(1,983)	(629)	2,604	1,568	2,488
Net plant & equipment	12,121	11,331	11,778	12,342	12,386	10,695	6,925	7,176	4,433
Total assets	21,206	20,454	19,935	20,437	20,601	18,403	12,171	11,221	8,165
Shareholders' equity	15,521	15,001	14,041	13,222	13,346	12,625	10,992	9,539	7,324
% Return on shareholders' equity	*9.0*	*12.2*	*10.4*	*3.5*	*9.8*	*19.9*	*11.0*	*13.9*	*8.3*
Dividends									
Dividends – paid	876	876	642	584	584	876	825	550	471
– per share	$ .75	$ .75	$ .55	$ .50	$ .50	$ .75	$ .75	$ .60	$ .55
Shares outstanding 31st December	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	965,497	856,855

NOTES: (1) The figures for 1973 and prior years have been restated to reflect the effects of the following:

(a) the settlement of the St. Canut Expropriation (1969 and subsequent years)

(b) The tax effect on Quebec Silica tax exempt income not previously recorded (1972 and 1973)

(c) the adoption of the tax allocation basis of accounting for income and mining taxes (1970 and prior years)

(d) the inclusion in the income statement of items which were previously shown in the statement of retained earnings (1970 and prior years)

(2) Acton Limestone Quarries Limited was merged with Indusmin Limited in 1967.

(3) Q.M.I. Minerals Limited was merged with Indusmin Limited in 1968.

indusmin limited

Head Office

P.O. Box 40, Commerce Court West,
Toronto, Ontario. M5L 1B4

Directors

†*W. E. Curry — Waterloo, Ontario
Consultant

*J. K. Godin — Toronto, Ontario
Consulting Mining Engineer

F. D. Hart — Arlington, Virginia
President,
American Gas Association

†E. L. Healy — Toronto, Ontario
Executive Vice President Operations
Falconbridge Nickel Mines Limited

†J. J. Mather — Toronto, Ontario
Vice President Industrial Minerals Division
Falconbridge Nickel Mines Limited

R. E. Paré — Montreal, Quebec
Executive

*G. T. N. Woodrooffe — Toronto, Ontario
Vice President Corporate Affairs
Falconbridge Nickel Mines Limited

*Members of the Audit Committee
†Members of the Executive Committee

Officers

J. J. Mather — *President and Managing Director*

D. D. Anderson — *Secretary*

J. D. Krane — *Treasurer*

Administrative & Sales Office

365 Bloor Street East
Suite 200
Toronto, Ontario M4W 1H7

C. M. Woodruff — *Senior Vice President*

D. C. McDonald — *Vice President Special Services*

G. E. Dale — *General Manager Finance*

A. G. Borud — *Division Manager — Construction Materials*

R. Lavertu — *Division Manager — Industrial Materials*

W. B. Midgette — *Sales Manager — Industrial Materials Division*

A. H. Morrison — *Sales Manager — Construction Materials Division*

Research Centre

1933 Leslie Street
Don Mills, Ontario M3B 2M3

J. Kriens — *Manager Research and Technical Development*

Transfer Agents

Crown Trust Company
302 Bay Street
Toronto, Ontario M5H 2P4

Auditors

McColl, Turner & Co.,
Peterborough, Ontario.

Solicitors

Strathy, Archibald, Seagram and Cole,
Suite 1700 — 110 Yonge Street
Toronto, Ontario M5C 1T7

Subsidiaries

American Nepheline Corporation

P.O. Box 3766,
Columbus, Ohio 43214

Wholly owned

This corporation, based in Columbus, Ohio, provides technical and engineering services to Indusmin's customers and sales agencies in the United States. A.N.C. could similarly serve other producers whose products and/or markets are compatible and contracts are being sought.

Klukwan Iron Ore Corporation

Suite 201, 311 Franklin Street
Juneau, Alaska

93% voting interest
70% interest in profits

Klukwan owns a large low-grade iron ore deposit in Alaska. In 1961 the Company's holdings were leased for a period of 75 years, to the United States Steel Corporation. With the consent of Klukwan, U.S. Steel assigned the lease in 1971 to the Iron Ore Company of Alaska, a subsidiary of Mitsubishi International Corporation. The assignee is conducting an extensive feasibility study, but there is no evidence of plans for early development.

The lessee (now the assignee) currently pays a minimum annual royalty of $100,000. The lessee has the right to (a) purchase the deposit for $10,000,000 less all royalties paid to date ($787,695), (b) terminate the lease on 90 days notice.

indusmin limited

Operations

Nepheline Syenite

Plant No. 1, Nephton, Ontario

Product Applications
Container glass, sheet glass, fibre glass, paint, vinyl, plastic, ceramics, foam rubber.

Silica

Plant No. 2, St. Canut, Quebec
Plant No. 3, St. Donat, Quebec
Plant No. 5, Badgeley Island, Ontario
Plant No. 6, Midland, Ontario

Product Applications
Container glass, sheet glass, fibre glass, concrete products, paint, ceramics, foundry construction, asbestos pipe, abrasives.

Aggregates

Plant No. 4, Acton, Ontario
Plant No. 7, Milton, Ontario

Yard No. 2, Scarborough Ontario
Yard No. 3, Pinecrest, Ontario

Product Applications
Concrete products construction

Research Centre

1933 Leslie Street, Don Mills, Ontario

Indusmin products are basic raw materials. It is through continuing research that existing products find new uses and new products are developed.

indusmin limited

Commerce Court West, P.O. Box 40,
Toronto, Ontario, Canada.
M5L 1B4

Printed in Canada

indusmin limited

AR28

INDUSMIN LIMITED

ANNUAL MEETING - 10 APRIL 1974, 11 a.m.

KING EDWARD HOTEL, TORONTO.

PRESIDENT'S ADDRESS

J. J. MATHER, PRESIDENT.

INDUSMIN LIMITED

ANNUAL MEETING - 10 APRIL 1974

PRESIDENT'S ADDRESS

1973 was a year of significant progress. Sales and earnings were the highest in the history of your Company.

Other performance indicators, and I shall comment on each in turn, although not reflecting our best performance ever, do compare favorably with the same indicators for industry generally.

Net income, not including the extraordinary item, was 9.1% of sales. The comparable figure for all manufacturers in Canada was about 5%. In other words, so viewed, our margin of profitability was quite acceptable. It would probably be unrealistic to anticipate major improvement in this indicator due to sharply rising costs and the impending withdrawal of important tax incentives for the mining industry. With respect to the latter, I particularly have in mind depletion allowances. The present depletion allowance (33-1/3% reduction in taxable income) will be discontinued 31 December 1976. Thereafter, the depletion allowance will be $1.00 for every $3.00 of eligible expenditure. Theoretically, a depletion rate of 33-1/3% could be maintained, but as a practical matter it cannot be maintained when our 31 December 1976 "bank" of eligible expenditures is exhausted, which will occur we estimate, before 1978.

The 12% return on shareholders' equity in 1973 is also above average for industry generally, but we believe that in this instance it is realistic to anticipate further improvement. The ratio of sales to shareholders' equity in 1973 was 1.18, up from 1.03 the previous year.

A similar ratio, that of sales to total assets, while still below our immediate objective of 1 to 1, reached .83 in 1973. As illustrated by the graph on page 10 of the Annual Report, the trend is favorable.

The cost of product as a per cent of sales in 1973 rose by 1% over 1972. This is a reversal of the downward trend established in 1971, but in the face of an inflationary factor in 1973, that was in excess of 8%, the Company performance appears creditable. The sum of product, selling and administrative costs amounting to 73% of sales in 1973, was 2% lower than in 1972, 5% lower than in 1971, and but 6% higher than in 1966. We have benefited, of course, from the annual growth in sales and the consequent dilution in overhead costs, but I think, too, our constant attention to cost control and method improvement has been of much benefit. We can demonstrate that we have not excessively increased our product prices. With few exceptions, our per cent price increases have been lower than those applied on the materials we buy. In one instance, in fact, we may be unique in that the price of glass quality nepheline syenite has just now reached the level prevailing in 1956.

The pricing pattern in our Aggregates Division is similar. Prices in 1973 were extremely favorable in comparison with those of the 1950's. We are faced now, however, with the need for relatively large price increases to offset rising transportation, operating and site rehabilitation costs.

Our price increases for silica too have been modest, but frankly, not entirely from choice. The prices set by our U.S. competitors, where for the most part the products are derived from beach sands at very low cost to say nothing of the benefits to the producer derived from access to the huge U.S. market have imposed price ceilings difficult to meet. Our products are derived from rock with the attendant high mining, crushing and grinding costs. Nevertheless, we have steadily increased our share of the Canadian market, but the profit margins have been thin. The close proximity of our producing locations to the points of consumption, in comparison with alternate sources, favors us as transportation charges rise, so our competitive position improves with time.

At the Annual Meeting a year ago I spoke of our desire to overcome two weaknesses, the extent of our dependence on a single industry, the container glass industry and the characteristic seasonal first quarter slump in sales. As it happened, there was improvement in 1973 in both areas. Sales to the glass container industry in 1973 were 26.7% of total sales, down from 29.8% in 1972. First quarter sales in 1973, 19.4% of the total for the year represented an increase of 1%. These improvements, however, were solely due to an extraordinary demand for aggregates in 1973, it must not be assumed that the change in the pattern of sales is permanent. To overcome these weaknesses with any permanence, we must diversify our product line.

I have spoken often of our intention to diversify Indusmin's activities, perhaps so often as to generate some skepticism. Let me assure you we in management are also somewhat disappointed with the pace of

diversification. Our approach to diversification in the past three years has been a cautious one, but I believe has been justified under the circumstances. The problems at Midland commanded the closest attention of management and we could ill-afford the substantial diversion of energies required to absorb a new enterprise. We were also reluctant to increase the corporate debt load before it was firmly established that Midland could be operated profitably. This is not to say that we reject the issue of equity as a method of raising expansion funds. We do accept the principle, however, that any additional issue of stock should not materially, for more than a brief period, dilute the shareholders' position in terms of earnings per share. This same consideration imposes high criteria in terms of earnings performance before deciding on the eligibility of any given investment opportunity. As a result, many promising leads, after considerable effort, are abandoned. We are not looking to eliminate totally the element of risk, but we do believe it prudent to avoid extraordinary risk and excessive extension of our management and financial resources.

The time for diversification is now here, and the immediate task is to select the proper vehicle from the numerous prospects under evaluation. I cannot at this time specifically identify our first move because the feasibility studies are incomplete. I indicated in the Annual Report that vertical integration of the Construction Materials Division is an immediate objective because we foresee continuing and spectacular growth in the construction industry in Ontario, and as a supplier we are well established in this field.

We are vitally interested in the field of solid waste management and the operation of a recycling plant. The process of a recycling plant is not unlike that of the milling plants we now operate, but the orebody is municipal solid waste. Waste management is also a problem in the movement of materials in vast quantities, and we know a great deal about this subject. The recycling and utilization of waste is the only practical solution to the disposal of waste, the trend in that direction is well established, and the potential is enormous. So far our efforts to get involved have been frustrated, but we are following developments closely and seek active participation.

We do not have at this point in time, a mineral property capable of economic development, nor do we have a "hot" prospect for acquisition, but both matters receive continuing attention.

A number of opportunities are being examined in which Indusmin, jointly with others, or under license arrangements, would produce in Canada industrial adhesives, building materials or other products, where we believe we have a legitimate interest because of our existing technology. We are also looking at the feasibility of marketing in North America industrial minerals from off-shore sources, which would provide an excellent platform for assessing the opportunities for further involvement. Recently, and consistent with our resolve to diversify, we have re-organized to strengthen the Corporate Development Department, and the long-range planning function.

The expropriation at St. Canut which has caused great concern to management and shareholders alike, seems to be moving toward settlement. The government's offer for settlement was accepted by us in principle, and I am advised that government lawyers are drafting the necessary legal documents. We have been offered a significant amount of cash and access to the requisite lands. I do not wish to disclose at this time the amount of cash involved because it is acceptable only if there is a satisfactory resolution of all the elements in what must necessarily be a complex package settlement. Other issues of much consequence are: the nature of operating and building restrictions; the guarantee of acceptable road and rail access, and the granting of mining leases by the Province of Quebec. The federal government has heretofore changed its mind on matters of detail subsequent to submitting an offer and this is further cause to postpone full disclosure. One thing appears certain, St. Canut will remain in production until the 1990's and perhaps beyond.

Finally, the outlook for this and ensuing years. The nature of Indusmin's business is such that it provides a great underlying strength. So long as there is demand for glass; automobiles; highways and parking lots; houses; dinnerware; floor, wall and drainage tile; paint; insulation; abrasives; pipe and lesser essentials, there will be a demand for the basic raw materials we market. In addition there is no apparent threat of obsolescence for our products. In other words, the demand for silica, nepheline syenite and aggregates will respond to the state of the economy

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generally, and in particular the economy of Eastern Canada and the Northeastern U.S. Indusmin's growth rate will continue to exceed that of the Gross National Product because we will continue to enlarge our market share through product development and aggressive marketing. IN each of our product lines we have, in the past, demonstrated much competitive strength and we seek to maintain our position by a continuous search for method improvement and a continuous program of management development. For these reasons then I believe the long-term outlook to be most favorable.

With respect to the year 1974:

I remarked earlier that market conditions were extraordinarily favorable in the first quarter of 1973, even so, earnings for that period were but 7.6% of the total earnings for the year. In this first quarter of 1974 we experienced a return to the historic patterns characteristic of 1972 and earlier years, depressed markets due to a low level of activity in the construction industry and high operating costs due to inclement weather conditions and the repair programs undertaken. There have also been strikes in the trucking industry disrupting deliveries to market from the producing locations in the Construction Materials Division. The final results will not be available for a few days, however I anticipate that we will be reporting earnings for the first quarter at or near the break-even level.

In spite of this disappointing beginning, I think it is still possible to meet our 1974 sales objective of 18.5 million dollars. Admittedly there are some potential problems, the disorder in the trucking industry, and the seamen's strike which has delayed opening of the shipping season on the Great Lakes, but otherwise I believe there is sufficient basic strength in the economy to support our sales growth objective of 16%.

1st Q 73

7.6%

of 73 profit

Our Govt.

- appear there will not be a sizeable increase in rate of taxation – 1974.

aggregates have been

- excess of 10%, depending

10-15% range

product delivered to customers

retrogression step in economy

instrumental in

- is deflation, progressive erodel [illegible] at fed. level, new high taxes

- high int. & capital intensive

- import year agreement, [illegible] less interest [illegible] months

- SL Canal

- lease agreement with union,

anticipate settlement within month